



# ADVISOR



TEACHERS, EMPLOYEES, PUBLIC, STATE POLICE AND JUDICIAL

Vol. XXXIV — No. 7

SERVING OVER 325,000 MEMBERS

January 2009

## Pensions Still Considered Safe

By Russell Hubbard, *Birmingham News*

**T**he Retirement Systems of Alabama's investment portfolio lost about 17.4 percent of its value in the 12 months ended Sept. 30, mostly from the cratering stock market.

"It is killing us like it is everybody else," said David Bronner, chief of the RSA, which invests money to help pay for the pensions of 315,000 active and retired state workers. "International stocks were the worst, followed by domestic stocks."

The Dow Jones Industrial Average, the most widely followed stock market benchmark, fell 20 percent from September 30, 2007 to September 30, 2008. Each loss of one point in the index costs the RSA about \$1.5 million on paper.

...The RSA started the fiscal year with about \$32.2 billion in assets. The 17.4 percent drop cut that by \$5.6 billion to about \$26.6 billion.

Retirees such as teachers, judges and police officers don't need to worry. The RSA is a defined-benefit program that is set up to pay pensions regardless of investment returns, unlike 401(k) plans that rely solely on them.

The fallback is taxes. The system relies on tax revenue if its investment returns aren't sufficient to pay for annual pension costs, such as monthly payouts, health-care benefits and cost-of-living increases. Taxpayers paid about \$892 million into the retirement fund in fiscal 2008. Good investment returns mean less tax money.

Bronner has been the chief of the system since 1973, when the investment portfolio was worth \$500 million and the state owed retirees \$1.5 billion.

He said no one invested in stocks has been immune from the worst market since The Great Depression. Falling markets have even affected ace investors such as Warren Buffet, America's richest man. Shares of his flagship Berkshire Hathaway conglomerate have fallen 41 percent so far in 2008. Good returns on real estate investments such as bonds and commercial office buildings mitigated the stock market debacle, Bronner said.

## A Special RSA "Thank You"

By David G. Bronner

**I** cannot say enough great things about the political leaders who rode to the rescue of the RSA in Mobile. When the RSA began investing \$250+ million into projects in Mobile, I had no idea that the mere sound of train whistles could literally destroy an investment.

With 25-26 trains per day, the RSA Battle House Tower and two absolutely beautiful downtown hotels, The Battle House, A Renaissance Hotel and the Renaissance Riverview Plaza Hotel, were held hostage to the noise. Because hotel guests could not sleep, our customer satisfaction rankings among Marriott hotels plummeted. With the help of some of Alabama's political leaders and the city of Mobile investing approximately \$250 thousand to have a "quiet zone," the whistles were stopped. Overnight, the hotels' rankings skyrocketed.



Mayor Sam Jones

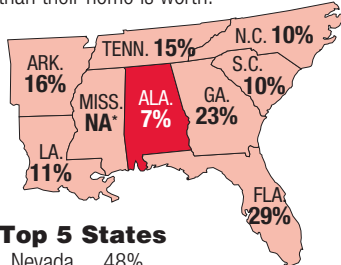


Congressman  
Spencer Bachus

Special thanks go to Mobile Mayor Sam Jones and the Mobile City Council, and especially to U.S. Congressman Spencer Bachus. I would also like to thank U.S. Congressman Joe Bonner and U.S. Senators Richard Shelby and Jeff Sessions. The RSA staff and its membership are truly grateful to these leaders for helping the RSA continue to improve our beloved state. ■

### MORTGAGE MESS

Alabama ranks low for "underwater" homeowners—those who owe more than their home is worth.



#### Top 5 States

Nevada	48%
Michigan	39%
Florida	29%
Arizona	29%
California	27%

\*No data was available for some states, including Mississippi.

Source: First American CoreLogic, *Birmingham News*

"Some of our real estate is 100 percent occupied, so some of those values are up 10 percent," Bronner said.

RSA, the 14th largest pension plan in the country by assets, owns real estate such as the 53-floor 55 Water Street, the largest privately owned office building in Manhattan. The Robert Trent Jones Golf Trail is another RSA investment.

RSA assets include loans made to a variety of businesses on which it collects interest payments, such as Raycom Media and Community Newspaper Holdings.

"We know the banks have all but shut down lending," he said. "Now, it is getting hard even for us." ■

# Call this a crisis? Just wait

David M. Walker, former U.S. Comptroller General, *Fortune Magazine*

**S**taring into the abyss always focuses the mind, which can help you avoid falling in. So let's take a look at the potential catastrophe that awaits us once we survive our current crisis. At the dawn of the 21st century the U.S. had \$5.7 trillion in total debt. As we approach the end of George W. Bush's presidency only eight years later, that sum has nearly doubled, thanks to war costs, tax cuts, spending increases, expanded entitlement programs, and now a welter of government bailouts and rescues. This year was particularly bad. The federal budget deficit for fiscal 2008 hit \$455 billion, up from \$162 billion last year. That figure does not include the cost of the Emergency Economic Stabilization Act of 2008, which has an initial price tag in the hundreds of billions of dollars. In fairness, some of that money presumably will come back to the Treasury, since the new rescue-related sums will be used to acquire preferred stock, mortgages, and other assets that someday could be sold at a profit.

...The entitlement due from Social Security and Medicare present us with that frightening abyss. The costs of these current programs, along with other healthcare costs, could bankrupt our country. The abyss offers no assets, troubled or otherwise, to help us cross it.... In fact, the deteriorating financial condition of our federal government in the face of

skyrocketing healthcare costs and the baby-boom retirement could fairly be described as a super-subprime crisis. It would certainly dwarf what we're seeing now. The U.S. Government Accountability Office (GAO), noting that the federal balance sheet does not reflect the government's huge unfunded promises in our nation's social-insurance programs, estimated last year that the unfunded obligations for Medicare and Social Security alone totaled almost \$41 trillion. That sum, equivalent to \$352,000 per U.S. household, is the present-value shortfall between the growing cost of entitlements and the dedicated revenues intended to pay for them over the next 75 years.

Why call it a super-subprime crisis? Besides its gigantic scale, there are very disturbing similarities between the current mortgage-related crisis and our next potential disaster. First, like the securitized investment vehicles that blew up, federal programs were launched without adequately thinking through who would bear the ultimate cost and related risk. Just as originators of mortgages let themselves off the hook by unloading packages of dubious loans onto others, lawmakers have increased spending, expanded entitlement programs, and cut taxes while expecting future generations to pay the bill. Third, in the same way that private sector "risk management" executives failed to prevent the subprime mortgage

crisis, overseers in Congress and the executive branch have turned a blind eye to costs associated with entitlement programs and tax cuts. While lax regulation of banks fed the current subprime crisis, a lack of statutory budget controls has led to a widening gap between the government's revenues and costs.

At the heart of these problems is our leaders' collective failure to act in the face of known challenges. Our country has veered from its founding principles, which held to individual responsibility and accountability today in order to create more opportunity tomorrow. When our constitution was written, the concepts of thrift and prudence were no less at the center of the American spirit than liberty and justice. During past financial crises and wars, the government went into debt because our nation's survival was at stake. What has changed is that piling up debt has become business as usual, even during times of prosperity. Today we are headed toward debt levels that far exceed the all-time record as a percentage of our economy. In fact, by 2040 we are projected to see debt as a percentage of our economy that is double the record set at the end of World War II. Based on GAO data, balancing the budget in 2040 could require us to cut federal spending by 60% or raise overall federal

*Continued on page 4*

## The Drug War

Mexico is at the heart of the illicit narcotics trade, and 25,000-plus Mexican soldiers are now locked in battle with the traffickers.

**90%** of cocaine imported into the U.S. goes through Mexico.

**1/3** of the marijuana on the U.S. market comes from Mexico.

**\$8 billion to \$24 billion** of cash generated by illicit U.S. drug sales is smuggled annually into Mexico from the U.S.

**4,300** drug-related murders have taken place in Mexico so far this year.

Sources: White House Office of National Drug Control Policy; Congressional Research Service; National Drug Intelligence Center; Stratfor.

## TRS Board of Control



Dr. Paul Hubbert administers the oath of office to new TRS Board Member Mr. Luke Hallmark.

# The Worst Justice Money Can Buy

Source: Robert Martin, *The Montgomery Independent*

**A** week before the election the two candidates for a single seat on the Alabama Supreme Court had raised and spent or had money spent on their behalf totaling over \$5 million.

...Alabama must find a better way to select judges. We are one of seven states which still select judges in partisan elections.

What must we do?

A good start would be to make judicial selection non-partisan like municipal elections. From that point there are numerous merit selection models from which to select that work in other states.

My choice is a model which would be established to keep the people involved in the selection process.

How would it work?

First, a judge would stand for office on a non-partisan ballot for an eight-year term. At the end of that term he/she would stand for what is called a "retention election." The question on the ballot would be "Should Judge Jane or Jim Smith be retained in office for another term?"

If the voters said "no" then the position would be filled for two years by a judge selected by the governor from three names sent to him by a local or state nominating commission. That nominating commission would be selected by judicial, legislative and executive officials. In the next general election, the position would be back up for election on a non-partisan ballot.

Should a judge for any reason leave office during a term, the local or state nominating commission would go through the same process to fill the remainder of the term. This nominating commission process is already used in about eight jurisdictions in the state for the filling of vacancies in judicial office.

You may have noticed that I would extend the elected term of a judge by two years. One reason for that is to encourage qualified lawyers to seek the positions and the other is that a part of my plan would place in law a provision for the voters to recall a judge under certain circumstances.

Today in Alabama the only qualification one must have, other than residency, to become a judge is to be licensed to practice law in the state. The plan I would propose would provide certain levels of experience for all judges before they could take the bench with circuit and appellate judges having a higher level than municipal or district judges." ■



## WANT TO HELP?

### A FREE Car Tag

Tired of that worn-out dealer tag on the front of your car? Would you like to help the RSA and our Alabama Tourist Department advertise "Alabama's Robert Trent Jones Golf Trail" on your front bumper? If so, call Tisha to request a tag at 334-517-7100, or 877-517-0020, or write:

Tag | P.O. Box 302150 | Montgomery, AL 36130-2150

# Your Mailbox

By Jeremy Caplan, *Time Magazine*

**R**emember when going through the mail was a thrill? These days Americans get an average of 18 pieces of junk mail for every personal letter. From catalogs to credit-card solicitations, our mailboxes are increasingly clogged with clutter. Dealing with unwanted mail not only wastes our time (eight months over the average lifespan) but also bears environmental costs. Paper spam eats up an estimated 100 million trees each year, with 44% of junk mail ending up—unopened—in landfills.

...A slew of new services aim to give you at least some control over what mail you receive. One of the most popular, *CatalogChoice.org*, focuses on ridding your mailbox of unwanted catalogs. You tell the nonprofit which ones you want to stop getting, and the site will contact the mailers on your behalf. More than a million people have signed up since the free service was launched last year. ■

**Pushing the envelope**

## 40 lb.

Weight of junk mail each American gets per year

## 848

Pieces of junk mail each household gets per year

## 89%

Poll respondents who support a Do Not Mail list

## 30%

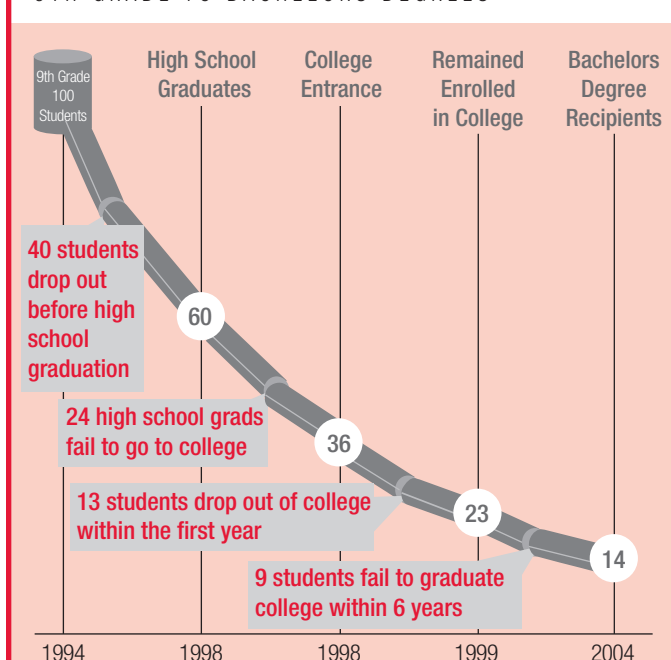
Worldwide mail composed of U.S. junk mail

## 19 billion

Number of catalogs mailed every year

## Alabama Education Pipeline

9TH GRADE TO BACHELORS DEGREES



Source: Higher Ed Info

ENJOY YOUR WINTER  
A Special Deal  
FOR RSA MEMBERS

**The Battle House,  
A Renaissance Hotel – Mobile – \$89**

- Jan. 1, 7–15, 25–27
- Feb. 1–5, 8–12, 16–18, 25–26
- Mar. 1–11, 15–18, 22–23, 29–31

**The Renaissance Riverview Plaza –  
Mobile – \$79**

- Jan. 1–2, 7–15, 25–27 • Feb. 1–5, 8–12, 25–26
- Mar. 1–4, 8–11, 15–16, 22–25, 29–31

**Marriott Grand – \$89** plus a 14% resort fee

- Jan. 1–11, 16–20, 23–25
- Feb. 1, 6–8, 15, 22, 26–28
- Mar. 1, 5–8, 13–15, 22, 28

**Marriott Grand – RSA Golf Package – \$169**

Ask for code – LOCD

Includes: Deluxe Room, One Round of Golf for Two People.

Call for Tee Times after booking package

- Jan. 1–11, 16–20, 23–25
- Feb. 1, 6–8, 15, 22, 26–28
- Mar. 1, 5–8, 13–15, 22, 28

**Marriott Shoals – Florence – \$79**

- Jan. 1–5, 15–19, 25–27 • Feb. 2–3, 5–9, 15–17, 22
- Mar. 1–2, 7–8, 20–22, 29–30

**Renaissance Ross Bridge – Hoover – \$89**

- Jan. 1–8, 10–13, 18, 19, 25–28, 31
- Feb. 1–3, 7–12, 15, 18–28 • Mar. 1–7

**Opelika Marriott – \$79**

- Jan 1–16, 18–20, 23–29
- Feb. 1–5, 8, 11–12, 15, 22–26
- Mar. 4, 8–10, 15–19, 22–25, 29–30

**Prattville Marriott – \$79**

- Jan. 1–6, 11–14, 16–17, 22, 25–28, 30–31
- Feb. 1–9, 11–12, 16–19, 21–25
- Mar. 3–5, 8–10, 15–16, 18–19, 22–24, 30–31

**Renaissance Montgomery – \$89**

- Jan. 1–12, 18–19 • Feb. 7, 15, 21 • Mar. 25–29

**RSA Spa Package – \$159**

Ask for code – LOCD Includes Deluxe Room

- Jan. 6–8 • Feb. None Available • Mar. 25–26

*Book early because the rooms are limited  
at these special rates. These rates are not applicable  
to groups or conventions.*

Code: RABM, 800-228-9290

## Crisis *continued from page 2*

tax burdens to twice today's levels.

Medicare, Medicaid and Social Security already account for more than 40% of the total federal budget. And their portion of the budget is expected to grow so fast that their cost, and the cost of servicing our debt, will soon crowd out vital programs, including research and development, critical infrastructure, education, and even national defense. The crisis we face is one of numbers and demographics but also of attitudes. Promises were made in an earlier time, when they seemed more affordable. Like homeowners borrowing against the value of their homes in the expectation that the values would go up forever, the American government borrowed against the future and assumed that the economy would grow fast enough to make that debt affordable. But our national debt is not limitless, and our foreign lenders are not fools. If we persist on our current "do nothing" path, our future will be jeopardized. Americans need to reconcile the government we want with the taxes we're willing to pay for it. True, attempts at reforming Medicare and Social Security have foundered in the past, and there may be some Americans who think that if the government can bail out the financial sector, it can bail out our entitlement programs. But the political difficulty of tackling these problems, hard as they are, has to overcome this time.... ■



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PERMIT NO. 402

Report — Street Lights that are Out — to the Power Company!  
Report — Weedy Lots — to the Mayor!